

REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS AUDIT EXAMINATION OF THE NELSON COUNTY FORMER SHERIFF'S SETTLEMENT – 1997 TAXES

As of June 2, 1998

EDWARD B. HATCHETT, JR. AUDITOR OF PUBLIC ACCOUNTS

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky Honorable Paul E. Patton, Governor John P. McCarty, Secretary Finance and Administration Cabinet Sarah Jane Schaaf, Secretary, Revenue Cabinet Honorable Dean Watts, County Judge/Executive Honorable Mike Newton, Nelson County Sheriff Honorable Jimmy Riley, Former Nelson County Sheriff Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the former Nelson County Sheriff's Settlement - 1997 Taxes as of June 2, 1998. This tax settlement was the responsibility of the former Nelson County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepared his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Nelson County Sheriff's taxes charged, credited, and paid as of June 2, 1998, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued a report dated May 11, 1999, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

Edward B. Hatchett, Jr. Auditor of Public Accounts

Audit fieldwork completed-May 11, 1999 144 Capitol Annex Frankfort, KY 40601-3448

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NELSON COUNTY JIMMY RILEY, FORMER SHERIFF SHERIFF'S SETTLEMENT - 1997 TAXES

As of June 2, 1998

Special

Real Estate \$ 1,218,116 \$ 459,049 \$ 2,417,464 \$ 1,368,368,368,368,368,368,368,368,368,368	es
Franchise Corporation 44,242 8,866 98,910 Prior Year Franchise Corporation 2,145 317 5,345 Distilled Spirits Taxes 463,891 68,466 818,952 Omitted Taxes 1,377 453 2,465 1,5 Bank Franchise 114,888	136
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Bank Franchise 114,888	
· · · · · · · · · · · · · · · · · · ·	509
Increased Through Erroneous	
· · · · · · · · · · · · · · · · · · ·	
Assessments 1,311 279 1,341 1,4	128
Penalties 7,336 2,918 17,329 8,3	366
Adjusted to Sheriff's Receipt (10) 273	319
Gross Chargeable to Sheriff \$ 1,984,764 \$ 559,912 \$ 3,361,806 \$ 2,029,4	100
<u>Credits</u>	
Discounts \$ 30,978 \$ 7,984 \$ 47,716 \$ 31,3	252
Exonerations 6,752 2,523 15,940 11,3	325
Delinquents:	
Real Estate 14,814 5,887 33,213 16,6	503
Tangible Personal Property 4,330 639 10,813 11,7 Intangible Personal Property	741 36
Uncollected Franchise 2,181 328 4,918	
Total Credits)57_
N. T. W. H. & 2040 006 & 1.050	1.10
Net Tax Yield \$ 1,925,709 \$ 542,551 \$ 3,249,206 \$ 1,958,4	
Less: Commissions * 82,130 20,891 71,483 83,5)21_
Net Taxes Due \$ 1,843,579 \$ 521,660 \$ 3,177,723 \$ 1,874,9	922
Taxes Paid 1,843,235 521,421 3,177,308 1,874,5	584
Refunds (Current and Prior Year) 296 130 518	103
Due Districts or (Refunds Due Sheriff) ***	
as of Completion of Fieldwork \$ 48 \$ 109 \$ (103) \$	

^{*} and ** See Page 4

NELSON COUNTY JIMMY RILEY, FORMER SHERIFF SHERIFF'S SETTLEMENT - 1997 TAXES As of June 2, 1998 (Continued)

* Commissions:

10% on \$ 10,000 4.25% on \$ 4,350,025 2.2% on \$ 3,249,206 1% on \$ 66,678

** Special Taxing Districts:

Library District \$ 70
Extension District 43
Soil Conservation District (4)

Due Districts or (Refund Due Sheriff) \$ 109

NELSON COUNTY NOTES TO FINANCIAL STATEMENT

As of June 2, 1998

Note 1. Summary of Significant Accounting Policies

Fund Accounting

The Sheriff's tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The former Sheriff met the requirements stated above, and as of June 2, 1998, deposits were fully insured or collateralized at a 100% level with securities held by the county official's agent in the county official's name.

NELSON COUNTY NOTES TO FINANCIAL STATEMENT As of June 2, 1998 (Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1997. Property taxes were billed to finance governmental services for the year ended June 30, 1998. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 1997 through April 20, 1998.

Note 4. Interest Income

The Nelson County Sheriff earned \$11,637 as interest income on 1997 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Pending Litigation

There is a sexual discrimination suit pending against the former Sheriff Jimmy Riley. The suit at this time is in the deposition stage and has not been set for trial. It is very likely that it will be set for trial sometime within the next year and there is a very strong possibility of an unfavorable judgement against the Sheriff, individually and as Sheriff in excess of \$5,000.00, for which there is no coverage by any applicable insurance.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Dean Watts, County Judge/Executive Honorable Mike Newton, Nelson County Sheriff Honorable Jimmy Riley, Former Nelson County Sheriff Members of the Nelson County Fiscal Court

> Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the former Nelson County Sheriff's Settlement - 1997 Taxes as of June 2, 1998, and have issued our report thereon dated May 11, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Nelson County Sheriff's Settlement - 1997 Taxes as of June 2, 1998, was free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under <u>Government Auditing Standards</u>.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Nelson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Dean Watts, County Judge/Executive
Honorable Mike Newton, Nelson County Sheriff
Honorable Jimmy Riley, Former Nelson County Sheriff
Members of the Nelson County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

Edward B. Hatchett, Jr. Auditor of Public Accounts

Audit fieldwork completed – May 11, 1999